

Message Text

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ACTION EB-11

INFO OCT-01 EA-11 AID-20 NSC-10 RSC-01 CIEP-02 TRSE-00

SS-15 STR-08 OMB-01 CEA-02 CIAE-00 COME-00 FRB-02

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SUBJECT: INVESTMENT INFORMATION FOR THE FY1974 FACT BOOK

REF: STATE'S A-1975

1. SUMMARY: DESPITE PROSPECT OF LABOR SHORTAGES IN CERTAIN AREAS AND INDUSTRIES AND RECENT GOVERNMENT RESTRICTIONS ON FOREIGN BANK LENDING, INVESTMENT CLIMATE ON TAIWAN CONTINUES HIGHLY FAVORABLE. END SUMMARY.

2. FOLLOWING RESPONSES ARE KEYED TO QUESTIONS IN STATE'S A-1975:

REPUBLIC OF CHINA

I. INVESTMENT CLIMATE.

A. DURING THE PAST TWO YEARS ROC HAS SUFFERED MANY SETBACKS IN ITS INTERNATIONAL RELATIONS BUT, DESPITE THESE DEVELOPMENTS AND ATTENDANT REPERCUSSIONS ON THE ECONOMY, TAIWAN'S ECONOMIC DEVELOPMENT HAS CONTINUED IMPRESSIVE PACE OF RECENT YEARS. EMBASSY PROJECTS FURTHER RAPID GROWTH IN GNP OVER PERIOD OF NEXT 4 YEAR PLAN (1973-1976) AS WELL AS LARGE GAINS IN FOREIGN TRADE.

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B. MUCH OF THIS SUCCESS IS ATTRIBUTABLE TO ROC'S LIBERAL FOREIGN INVESTMENT POLICY AND ITS SOUND FINANCIAL AND TRADE

PRACTICES WHICH HAVE PRODUCED FAVORABLE BALANCES OF TRADE, LARGE FOREIGN EXCHANGE SURPLUSES AND A SOUND INTERNATIONAL DEBT POSITION. THESE FACTORS HAVE CONTRIBUTED SUBSTANTIALLY TO A FAVORABLE INVESTMENT CLIMATE. FOREIGN FIRMS, PREDOMINANTLY AMERICAN, HAVE INVESTED HEAVILY ON TAIWAN OVER THE PAST 4 YEW , PARTICULARLY IN ELECTRONICS AND RELATED FIELDS.

C. THE SIXTH FOUR YEAR ECONOMIC DEVELOPMENT PLAN STATES THAT " BESIDES FURTHERING THE DEVELOPMENT OF THOSE LIGHT INDUSTRIES THAT HAVE GOOD EXPORT PROSPECTS... EMPHASIS IN INVESTMENT PROMOTION WILL BE ASSIGNED PROJECTS FOR DEVELOPMENT OF HEAVY AND PETRO- CHEMICAL INDUSTRIES AND FOR IMPROVEMENT OF TRANSPORTATION AND COMMUNICATION SERVICES. MOREOVER, WITH A VIEW TO UPGRADING PRODUCTION AND MANAGERIAL TECHNIQUES ON TAIWAN, OVERSEAS CHINESE AND FOREIGN INVESTMENTS WILL CONTINUE TO BE WELCOMED AND MANUFACTURERS WILL BE ENCOURAGED TO ENTER INTO TECHNICAL COOPERATION OPERATIONS WITH REPUTABLE FOREIGN COMPANIES." IN ADDITION, THE GOVERNMENT HAS TAKEN SEVERAL CONCRETE MEASURES RECENTLY TO PROMOTE FOREIGN INVESTMENT USING MORE ADVANCED TECHNOLOGY IN CAPITAL- INTENSIVE INDUSTRIES. TO THAT END, IN 1971 A NEW SECTION (ARTICLE 16, PART 3) WAS ADDED TO " CATEGORIES AND CRITERIA OF PRODUCTIVE ENTERPRISES ELIGIBLE FOR ENCOURAGEMENT" WHICH PROVIDES THAT " ENTERPRISES WHICH ADOPT NEW TECHNOLOGY OR INTRODUCE NEW PRODUCTIVE EQUIPMENT, DESIGNED TO IMPROVE THE QUALITY OF PRODUCTS OR TO REDUCE PRODUCTION COSTS AND SALES PRICES, ARE ELIGIBLE FOR ENCOURAGEMENT". AS WELL AS ATTEMPTING TO DIVERSIFY ITS EXPORT INDUSTRIES, TAIWAN IS MAKING GREAT EFFORTS TO EXPAND EXPORT MARKETS, ESPECIALLY TO EEC. GRC HOPES DEVELOPMENT OF MORE CAPITAL INTENSIVE INDUSTRY AND MARKET DIVERSIFICATION WILL EASE PROJECTED LABOR SHORTAGES AND WILL HELP MITIGATE PRESSURES FOR FOREIGN QUOTAS AGAINST CERTAIN OF ITS MAJOR EXPORTS, E. G. TEXTILES, SYUES, ELECTRONIC ITEMS AND CACOED FOODS .

D. SINCE 1971 THERE HAVE BEEN A NUMBER OF CHANGES IN THE GENERAL GUIDELINES GOVERNING FOREIGN INVESTMENT. A REQUIREMENT THAT 100 PER CENT OF MOST FOREIGN- INVESTED PRODUCTION BE EXPORTED IS NOW MORE FLEXIBLE, PERMITTING UNCLASSIFIED

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MANUFACTURERS TO SELL DOMESTICALLY IF GOVERNMENT DETERMINES THAT PRODUCT IS NEEDED LOCALLY. RECENT REMOVAL OF MORE THAN 2,000 TIEMS FROM PROHIBITED IMPORT LIST AND REDUCTION OF DUTIES ON CERTAIN INDUSTRIAL RAW MATERIALS WILL BE BENEFICIAL TO THOSE FOREIGN INVESTORS DEPENDENT ON IMPORTS OF MATERIALS AND COMPENENTS. DURTHER REDUCTIONS IN IMPORT DUTIES ARE ANTICIPATED. ALSO OF BENEFIT HAS BEEN THE MARKED REDUCTION IN RED TAPE AND BUREAUCRATIC DELAYS IN PROCESSING INVESTMENT APPLICATIONS. CONCRETE EVIDENCE OF GOVERNMENT' S INTENTION TO ATTRACT FOREIGN INVESTMENT

REFLECTED BY RECENT VISIT OF PRESIDENT OF CENTRAL TRUST
OF CHINA TO US IN FEBRUARY/ MARCH OF THIS YEAR TO SEEK OUT
NEW US INVESTORS FOR JOINT VENTURES ON TAIWAN.

E. WHILE THERE HAVE BEEN CHANGES IN CRITERIA USED IN SCREENING
FOREIGN INVESTMENT APPLICATIONS AND IN GENERAL GUIDELINE
PROCEDURES, THERE HAS BEEN NO BASIC ALTERATION IN STATUTE
FOR ENCOURAGEMENT OF FOREIGN INVESTMENT DURING PAST TWO
YEARS. BASIC REGULATIONS CONTINUE TO RESTRICT FOREIGN
INVESTMENT TO ENTERPRISES MANUFACTURING PRODUCTS AND
RENDERING SERVICES EITHER FOR EXPORT OR FOR DOMESTIC
CONSUMPTION (IF UNAVAILABLE LOCALLY) AND TO THOSE FIRMS
WHOSE ACTIVITIES CONTRIBUTE TO TAIWAN'S ECONOMY (INCLUDING
RAISING STANDARD OF TECHNOLOGY) AND SOCIAL DEVELOPMENT. THESE
DELIBERATELY VAGUE GUIDELINES PERMIT GOVERNMENT MAXIMUM
LATITUDE IN MAKING DECISIONS ON CASE BY CASE BASIS.
IN GENERAL, GRC HAS BEEN FLEXIBLE IN ITS INTERPRETATION
OF BASIC LAW APPROVING MOST APPLICATIONS EITHER UNDER
DIRECT FOREIGN INVESTMENT STATUTE OR UNDER TECHNICAL
COOPERATION STATUTE. HOWEVER, SOME FOREIGN APPLICATIONS
HAVE BEEN TURNED DOWN IN AREAS OF FOOD WHOLESALING AND
RETAILING AND IN VEHICLE MAKING AND RELATED SERVICE
FIELDS WHERE GOVERNMENT WISHES TO PROTECT THE L

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